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SUBJECT: VIETNAM'S MARKET HAS FALLEN AND IT CAN'T GET UP

REF: Hanoi 377

HANOI 00000388 001.2 OF 002

11. (U) Summary: Vietnam's stock market has dropped dramatically in the first quarter of 2008, prompting the Government of Vietnam to take a number of steps to try to stabilize the market. A plan to have the State Capital Investment Corporation (SCIC) buy shares did not prevent further declines. Narrower trading bands on both the Hanoi and Ho Chi Minh City exchanges seem to have brought some short-term stability. Local analysts and investors feel that the market may be making an appropriate adjustment towards more realistic value levels. End Summary.

#### VIETNAM'S STOCK MARKET SLUMPS

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12. (U) The Ho Chi Minh City Stock Exchange Index (Vietnam's official stock index) fell by 23 percent in dollar terms in the first two months of 2008, falling to 608 on March 4 and making it the worst performing stock market in Asia. Mr. Tran Van Dung, Director of the Hanoi Securities Trading Center (HASTC) commented that "individual investors' anxiety had spread to some securities companies and fund management firms".

13. (U) The Ministry of Finance (MOF) publicly cited increased stock supply (from new listings and additional stock issues), the global economic slow down, tightened monetary policy and lack of domestic investor confidence as reasons for the plunge. Private investors, however, blame the rocketing inflation rate, rising prices for gold and real estate, and weak performance in global and regional bourses as major factors that prompted them to turn their back on the securities market. Local bankers and analysts are also quick to point out that the securities lending cap of three percent for commercial banks has resulted in more capital going towards Vietnam's overheating property market (reftel).

#### THE GOVERNMENT'S RESPONSE

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14. (U) The Securities Business Association (SBA) called an urgent meeting on March 4 with the State Securities Commission (SSC) to propose measures to resuscitate the market, including a proposal for a temporary trading halt. On March 5, the MOF, which oversees the SSC, postponed the initial public offerings (IPO's) of some large state owned enterprises such as SABECO and Agribank. MOF also proposed a plan, endorsed by the Prime Minister, to require the State Capital Investment Corporation (SCIC) to buy shares of listed firms to stabilize the market. Mr. Dung, HASTC's Director, believed that it was not yet necessary to suspend trading because the market

levels did not warrant such action. According to him, the most urgent action needed was "to stabilize investors' psychology and confidence".

#### SCIC TAKES ACTION, AS REQUIRED

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¶16. (SBU) In a meeting with EconOff, Mr. Le Song Lai, Executive Director of SCIC, said that they were "instructed by the Government of Vietnam" to do something to resuscitate the market, and had already made its first purchase of shares. "It was not our intention. It's an undesirable role," he explained. According to Lai, SCIC is aware of foreign investors' concern about the government's intervention in the market, but he underscored that "this was only a temporary action, not a long term plan."

¶17. (SBU) Pursuant to the plan, SCIC is allowed to determine the volume and type of stocks it will buy, when it will purchase, and when it will sell. Lai would disclose the amount that SCIC is authorized to spend, but other sources have placed it at around 300 million dollars (perhaps coincidentally, the approximate amount of SCIC's short-term capital). SCIC will make its purchase decisions based strictly on liquidity and profitability of companies, and will not engage in "daily trading" or selling stocks for short term gains. Mr. Lai said that SCIC will carefully consider the timing and number of share sales to avoid destabilizing the market.

¶18. (SBU) SCIC's Lai believed that SCIC would exit as soon as the market stabilized. He admitted that at the moment, it was too early to determine an exit date as "the market is still very volatile." He also felt that the GVN should consider setting up a fund to help stabilize the market in difficult times, rather than depending on SCIC's intervention. Despite SCIC's role, the index closed out ten consecutive days of losses at 497 points on March 25, the lowest level in the past year.

#### SSC ADJUSTS THE TRADING BAND, MARKETS RISE

HANOI 00000388 002.2 OF 002

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¶19. (U) The SSC also decided to narrow the daily share trading band from five to one percent (on the Ho Chi Minh Stock Exchange) and from ten to two percent (on the HASTC) effective March 27. The share trading band is the limit on how far share prices can move up or down from its reference price. The reference price is the average price of the last five previous trading sessions. SSC narrowed the band to calm investors, prevent dramatic drops and discourage liquidation of shares due to margin calls.

¶10. (U) Following this action, the market has shown slight gains for the five consecutive days since the new bands were introduced, closing at 529 points on April 3. Trading volume, however, has slowed to a trickle, with only 1.1 million shares worth VND 72 billion (US\$4.5 million) changing hands on April 3. According to Bui Van Quang, deputy director of SME Securities, investors are holding shares because they do not see much profit in trading within the narrow band. As a result, the SSC just widened the band from one to two percent (on the Ho Chi Minh Stock Exchange) and from two to three percent (on the HASTC), effective April 7.

#### THE PRIME MINISTER SPEAKS

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¶11. (U) In addition to the above measures, the Prime Minister recently tasked a number of agencies to assist in GVN efforts to resuscitate the stock market. He asked SCIC to focus on buying shares that weigh on the index to help stabilize the market. He assigned the State Bank of Vietnam (SBV) to instruct state owned commercial banks and urged joint stocks banks to delay margin calls.

At the same time, the SBV is to increase buying foreign currency from banks and financial institutions including foreign currency from portfolio investments at reasonable exchange rates. The PM will also allow listed firms to buy back their own shares to increase chartered capital without any restrictions.

¶12. (SBU) In an example of classic Vietnamese spin control, the PM assigned the Ministry of Public Security to investigate and deal with false information and rumors about the market. He asked the MOF, the SBV and the SSC to organize a press conference to announce the first quarter socio-economic results. Finally, the PM told the Ministry of Information and Communication to instruct media to report accurately and objectively on GVN's direction and policy on stock market development.

¶13. (SBU) Comment: Local investors are not well educated about market basics, and many were buying and selling vigorously based more on emotion and the desire to make a quick buck versus any real understanding of value. Area fund managers and analysts have commented that Vietnam's stock market is simply adjusting to a more rational, regionally appropriate level after an earlier period of unsustainable (and perhaps unjustified) growth. End comment.

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